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Carol X Weakley 10/25/2006 03:06:35 PM From DB/Inbox: Carol X Weakley

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ACTION: ECON
INFO: IPSC SCI IMO CONS RES POL DCM AMB AID ADM FCS
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DISSEMINATION: ECON
CHARGE: PROG

APPROVED: ECON:WWEINSTEIN
DRAFTED: ECON:MRINCON
CLEARED: ECON: JWITOW

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INFO RUEHXX/ARAB ISRAELI COLLECTIVE
RUCPDOC/USDOC WASHDC
RHEBAAA/USDOE WASHDC

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SENSITIVE

E.O. 12958: N/A
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SUBJECT: MODEST DISCOVERY OF OIL IN DEAD SEA BASIN COULD
OPEN DOOR TO INTERNATIONAL INVESTMENT

1. (U) Genco Oil and Gas Exploration, an Israeli company that has been drilling in the Dead Sea basin for ten years, recently struck oil at Zuk Tamur 3 -- a 1,800 meter deep drill site -- and discovered reserves the company estimates at between four and six million barrels, worth about \$300 million. Genco and partner Lapidoth Israel Oil Prospectors expect to find more as exploration continues, and, according to Genco geologist Eli Tenenbaum, early tests indicate that the drill site could supply between 100 and 200 barrels of crude daily in the near future, and up to hundreds of thousands of barrels in total. The primary value of this modest discovery, Tenenbaum added, is to show prospective investors that the area has potential for oil exploration.

2. (U) National Infrastructures Minister Benjamin Ben Eliezer hailed the discovery as "just the beginning," and noted that the Dead Sea basin would be open to interested companies for drilling. Another Israeli company, Delek Drilling Ltd., has bought into the project, and has agreed to take a 50 percent stake in key Dead Sea oil drilling projects run by Genco. Genco intends to continue its exploration at ten sites, the next of which will be the Zuk Tamur 4 site, which studies have shown is likely to hold five million barrels of oil. The project will cost approximately \$800,000. (Note: The search in the area began ten years ago, but was put on hold because Genco did not deem it economically viable. However, due to the recent rise in oil prices, it was renewed. End note.)

3. (U) Israel currently only produces about 100 barrels of the approximately 250,000 barrels of oil it consumes per day. Sixty percent of its imports come from Russia, and another 15 percent come from the Caspian Sea Basin countries of

Kazakhstan and Azerbaijan. In an effort to reduce Israel's \$14 million daily expenditure on energy imports, National Infrastructures Minister Benjamin Ben Eliezer signed an order in April 2006 allowing offshore exploration, overriding a previous order from 2000 that closed the sea to such exploration. In mid October, the National Infrastructures Ministry granted PetroMed, a Canadian-based oil and gas exploration company, a permit to begin exclusive exploration of hydrocarbons in a 3,500 square kilometer area off the coast of Haifa. According to PetroMed CEO Hagai Amir, the company's mission is to help Israel free itself of dependence on imported oil and gas.

¶4. (SBU) Comment: Although oil has been discovered in Israel before, the quantity and quality of the oil has not justified commercial production. It is doubtful that Genco's and any future discoveries will substantially reduce Israel's dependence on foreign oil. However, they will likely open the door to more cooperation with international investors, as Israel increasingly looks to diversify its operations in the extractive sector and locate alternative sources of energy abroad. Such cooperation could help maximize Israel's limited fossil fuel resources. End comment.

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JONES